

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 86 – HB 289

February 17, 2013

SUMMARY OF BILL: Creates a one-time sales tax holiday for Tennessee small businesses. Defines “Tennessee small business” to mean a business located in Tennessee, operating for profit, employing no more than 10 employees and having total gross receipts of no more than \$2,000,000 averaged over a 3-year period, or in the year immediately preceding application for refund of paid sales tax if not in operation for 3 years, or projected total gross receipts of no more than \$2,000,000 for the year in which an application for the refund is made when the business has been in operation for less than one year. The sales tax holiday for any qualified Tennessee small business shall be for one continuous forty-eight hour period occurring between January 1, 2014, and June 30, 2014. Limits the amount of sales tax refund to any qualified business to \$5,000. Prohibits purchases made using cash from being eligible for the refund. Establishes an application filing deadline of August 31, 2014. Requires the Department of Revenue (DOR) to develop guidelines for administering the sales tax holiday. Authorizes DOR to assess civil penalties up to \$25,000 for individuals submitting false or fraudulent refund applications. Requires all refunds to be paid from the General Fund. Holds local governments harmless from loss of sales tax revenue.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – Exceeds \$14,037,000/FY13-14

Increase State Revenue – Exceeds \$341,500/FY14-15

Increase State Expenditures – Exceeds \$5,867,500/FY13-14

Increase Local Revenue – Exceeds \$139,400/FY13-14

Exceeds \$139,400/FY14-15

Assumptions:

- The current Fiscal Review Committee estimate for state sales tax revenue for FY13-14 is \$7,260,120,000.
- There are 8,760 hours each calendar year (24 hours x 365 days).
- State sales tax collections per hour for FY13-14 are estimated to be \$828,781 (\$7,260,120,000 / 8,760 hours).
- State sales tax collections for each 48-hour period are estimated to be \$39,781,488 (\$828,781 x 48 hours).

- At least 30 percent of state sales tax collections are derived from Tennessee small businesses each year.
- Purchases made by eligible Tennessee small businesses increase by at least 25 percent during the sales tax holiday.
- The one-time decrease in state revenue will exceed \$14,918,058 ($\$39,781,488 \times 30\% \times 125\%$).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The one-time decrease in local option sales tax revenue is estimated to exceed \$5,327,878 [$(\$14,918,058 / 7.0\%) \times 2.5\%$].
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [$(5.5\%/7.0\%) \times 4.603\%$].
- A one-time decrease in local revenue exceeding \$539,586 ($\$14,918,058 \times 3.617\%$).
- The net one-time decrease in state revenue will exceed \$14,378,472 ($\$14,918,058 - \$539,586$).
- The one-time increase in state expenditures for holding local governments harmless from the loss of local option and state-shared sales tax revenue will exceed \$5,867,464 ($\$5,327,878 + \$539,586$).
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services.
- Total tax savings for Tennessee small businesses are estimated to exceed \$20,245,936 ($\$14,918,058 + \$5,327,878$).
- The one-time increase in state sales tax revenue is estimated to exceed \$708,608 ($\$20,245,936 \times 50.0\% \times 7.0\%$); the one-time increase in local option sales tax revenue is estimated to exceed \$253,074 ($\$20,245,936 \times 50.0\% \times 2.5\%$).
- The net one-time increase in state sales tax revenue is estimated to exceed \$682,978 [$\$708,608 - (\$708,608 \times 3.617\%)$]. Fifty percent of this increase, or \$341,489 ($\$682,978 \times 50.0\%$), will be realized in FY13-14; the remaining fifty percent will be realized in FY14-15.
- The total net decrease in state sales tax revenue in FY13-14 is estimated to exceed \$14,036,983 ($\$14,378,472 - \$341,489$). The total increase in state sales tax revenue in FY14-15 is estimated to exceed \$341,489.
- The net one-time increase in sales tax revenue for local governments is estimated to exceed \$278,704 [$\$253,074 + (\$708,608 \times 3.617\%)$]. Fifty percent of this increase, or \$139,352 ($\$278,704 \times 50.0\%$), will be realized in FY13-14; the remaining fifty percent will be realized in FY14-15.
- No increase in state expenditures for administration of the sales tax holiday for Tennessee small businesses because DOR has resources for administering the annual sales tax holiday occurring each August.

- There will not be a sufficient number of cases for the state to experience any significant increase in civil penalty revenue.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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